

# **FY2005 Business Outlook**

Russell G. Chew Chief Operating Officer

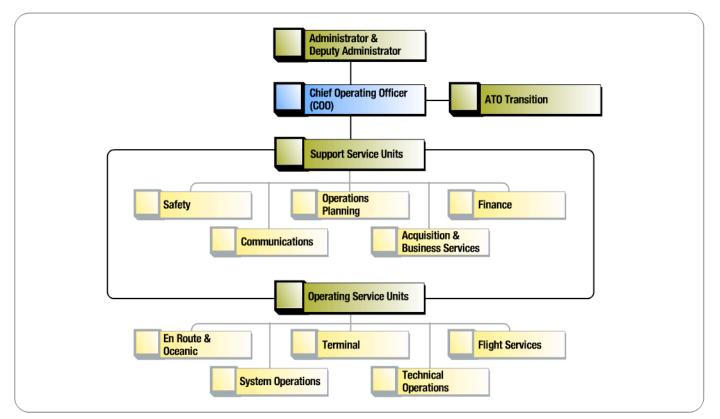
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# Air Traffic Organization Business Outlook :: Overview

- Demand is growing; business-as-usual costs are rising
- Industry restructuring; unit revenue is falling
- 3. Cost-revenue gap is widening; bold actions needed now
- Stakeholders need to help shape the solution

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# Air Traffic Organization :: Structure



#### Transitioning to the Future :: Business Plan

- Organize around our customers

  Define products/services from external perspective (service model)
- Change our leadership model

  Change "personality" (stovepipe) to "organizational" management
- Simplify basis of performance for the organization

  Develop metrics based on "value-based" units of output
- 4. Baseline our resources

  Understand our basic resource and cost drivers
- **Develop a rolling five-year business plan**Establish forward revenue and cost management practices
- 6. Execute the plan

  Drive operating and financial management goals from top to bottom

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# Air Traffic Organization :: Background



source: FY04

• C00 hired in Aug. 2003

• Established in Feb. 2004

• Operates Like a Business

Budget: \$9.1 billion
Operations: \$6.2 billion
Capital: \$2.9 billion
Replacement Costs: \$30+ billion

Employees: 36,461
NAS Components: 40,997

ATC facilities: 631

En Route aircraft: 43.7 million

# Air Traffic Organization :: Partnership



- Commercial Aviation
  - **>** Airlines
  - ➤ Cargo
- Business
- Personal Aviation
- DHS (and other Government Agencies)
- Military (DOD)\*
  - > \*Partner with ATO

#### **Employees**

- ATO Federal Employees
- Labor Unions

#### **Owners**

- U.S. Citizens\*
- Traveling public\*
- Taxpayers\*
  - > \*As represented by Congress
- Office of Management and Budget
- Secretary of Transportation
- Inspector General

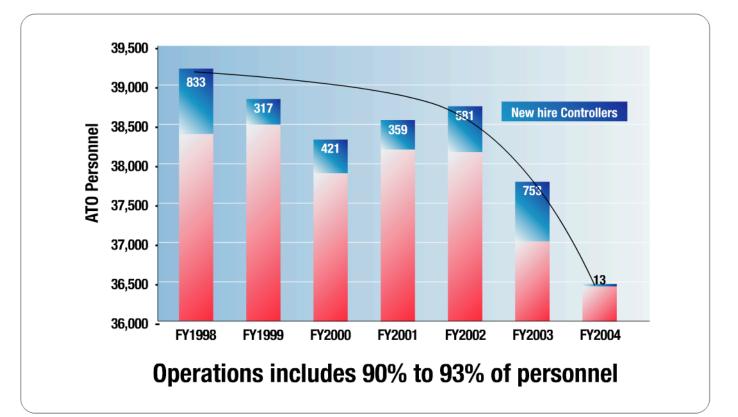
# **Operating Budget :: Unit Cost & Productivity**



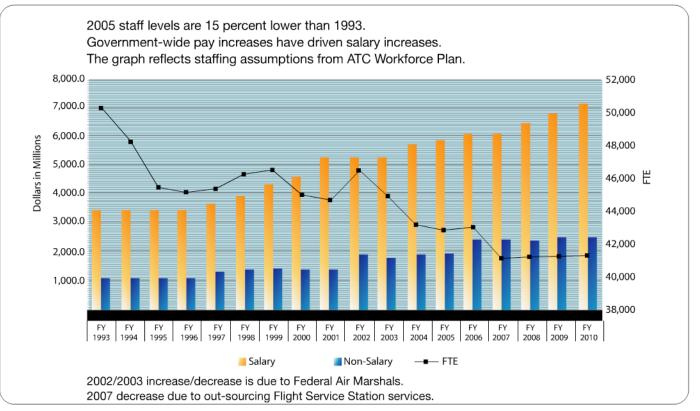
Average Annual Growth - 6.3% (since 1996)

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#### **Business as Usual :: Attrition**

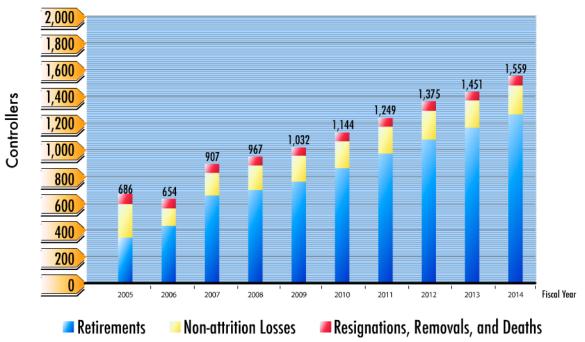


# **Productivity** :: Operations Expenses and Staffing



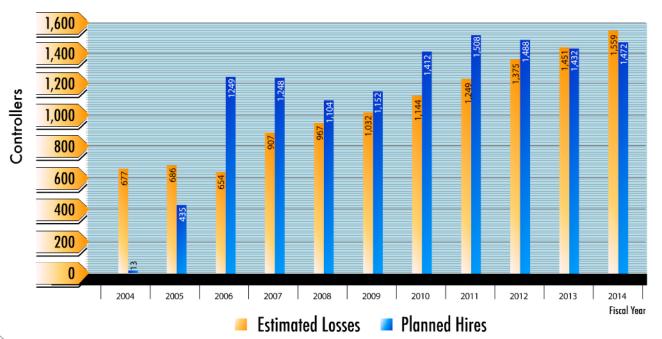
## **Controllers** :: Losses

The total number of controllers that the FAA will lose over the next 10 years is estimated to be 11,024.



# **Controllers** :: Losses vs. Hiring

Hiring profile exceeds losses through FY 2012 except for FY 04 & FY 05 when the budget did not support a higher number.



# **Controller Hiring Plan :: Legacy Standard and New Targets**



# **Operating Budget :: What and Where**

::FY2003 DATA

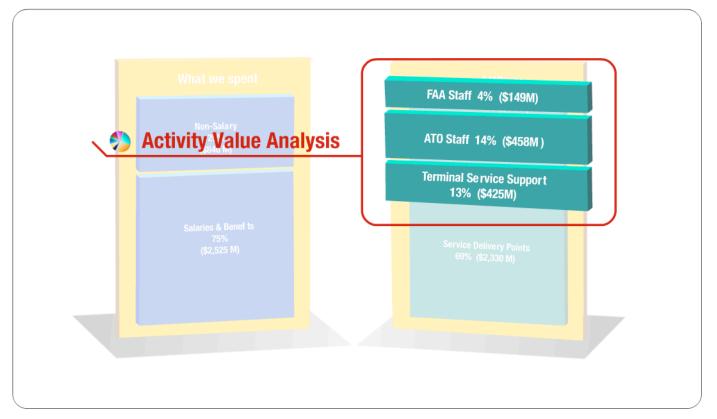


# **Operating Budget :: Terminal Services**

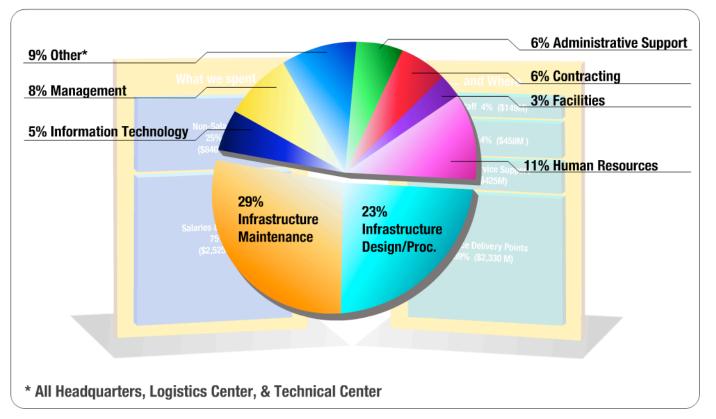
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# **Value Analysis :: Providing Insight**



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# ATO Business Environment :: Understanding the New Realities

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#### FAA Funding Overview :: Trust and General Funds

Rural Airports Tax a

#### FY04 Funded by:

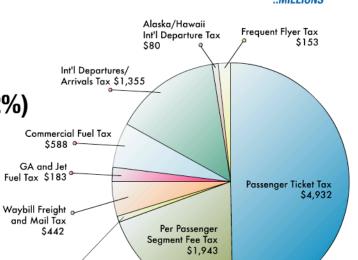
#### **Aviation Trust Fund (78%)**

Uncommitted balance decreasing (nearly 50% over last 3 years); Current balance only \$3.2B

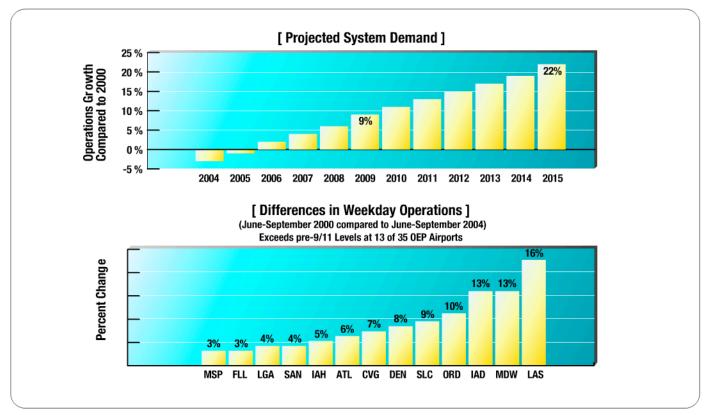
#### **General Fund Contribution (22%)**

Uncertainty in out years due to overall federal budget deficits (\$413B in FY04)

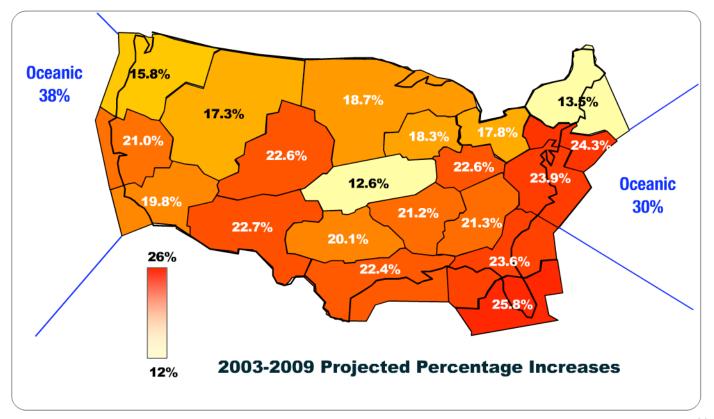
# Trust Fund Make-up in 2004



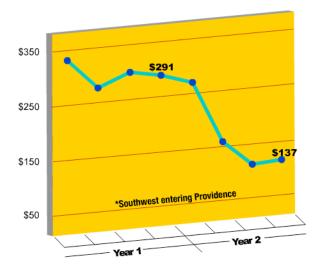
# **Demand is Returning :: Commercial Operations**

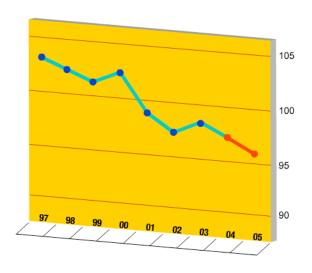


# **Traffic Projections :: Workload is Increasing**



# **Industry is Restructuring** :: Prices and Passengers





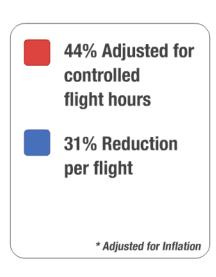
#### **Ticket Prices Falling**

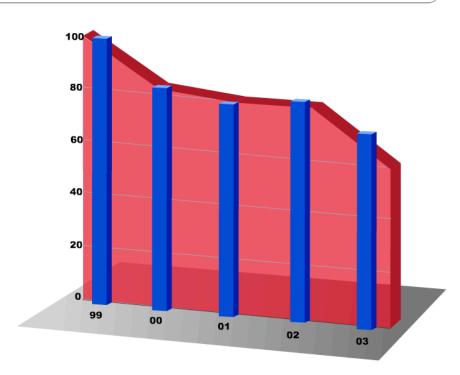
Example - Low-Cost Carrier
 Entering a New Market

#### **Passenger Per Aircraft Decreasing**

└ Source: FAA Forecast

# Tax Revenue :: Declining per Flight

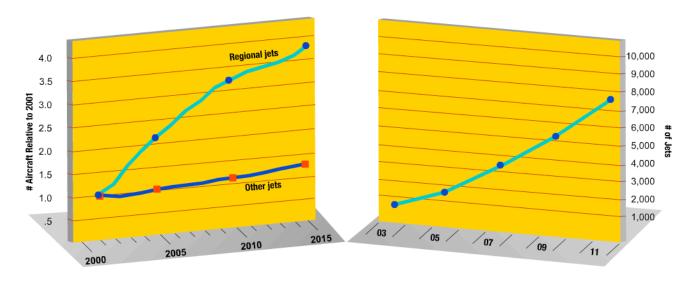




#### **Relative Ticket Tax Revenue Per Flight**

└ Percentage::Year

# **Workload** :: More Complex



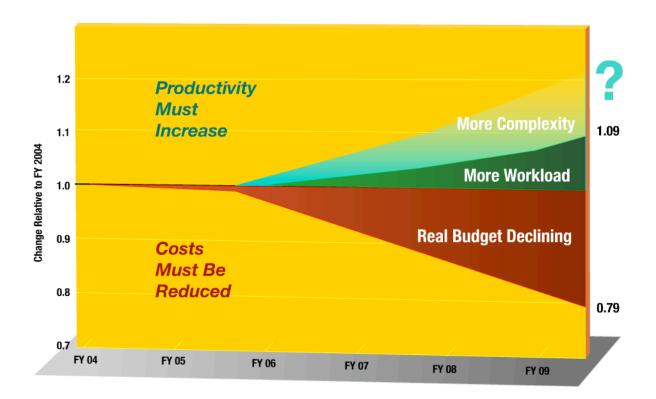
#### **Relative to Jet Fleet Composition**

- Regional and business jets compete for en route airspace

#### **Projected Business Jet Deliveries**

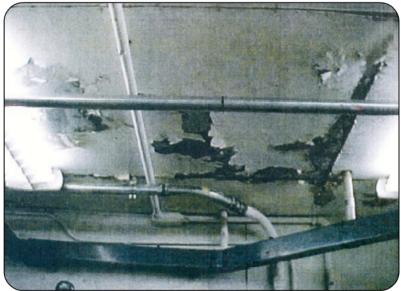
- ─ Shorter runways are no longer usable
- 7,708 projected business jet deliveries by 2013

# **Operating Budget :: Challenge**



# Aging & Deteriorating Facilities :: Rated "Poor"

Average en route facility condition index (FCI) currently is rated "poor" and getting worse each year.



#### AGE \*

29 Towers

**28** TRACON Facilities

**27** Primary En Route Radars

**16** Primary Terminal Radars

**40** En Route Control Centers

**20** Flight Service Stations

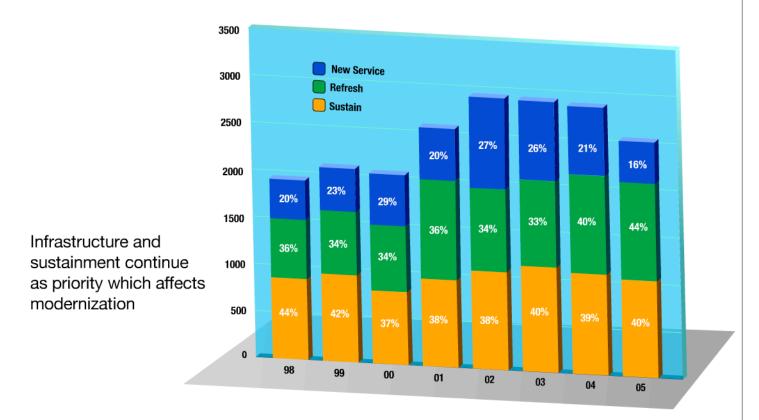
\* Average age in service

# **Capital Budget :: Where and Why**

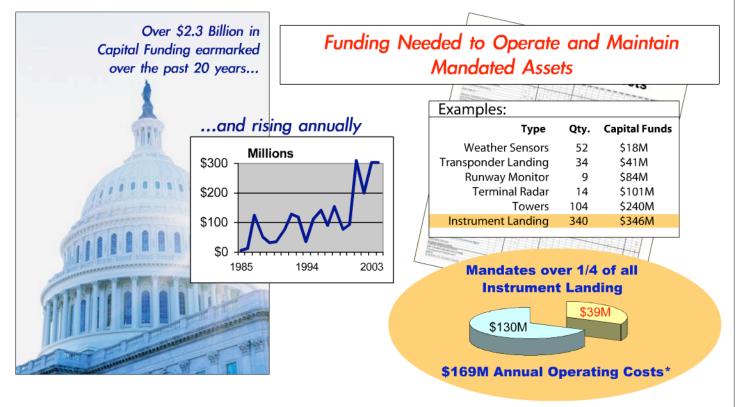
::FY2004 DATA



# **Operating Needs :: Maintaining Investment Priorities**



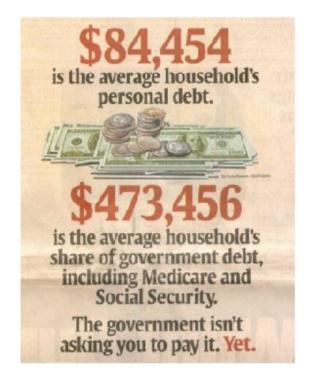
# **Congressional Mandates :: Impact**



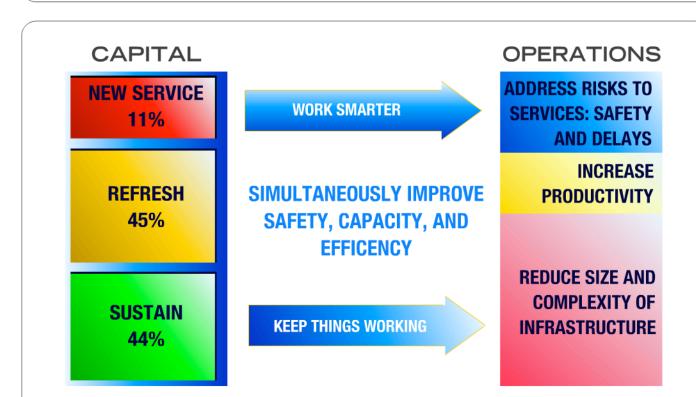
**Headlines** :: **USA Today** 



Monday, Oct. 4th 2004



# **We Must Link Capital To Operations**



#### Air Traffic Organization :: Our New Approach

To ensure the viability of the U.S. air traffic management system, we cannot do "business as usual"

- Plan for our future and execute our plan
- Account for every dollar and every person
- 3. Deliver the services our customers need the most
- Focus our limited resources in the right way, at the right place, at the right time
- Measure our success by the results we achieve, and...

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To ensure the viability of the U.S. air traffic management system, we cannot do "business as usual"

- Plan for our future and execute our plan
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# Engage our owners, customers, and employees in bold and innovative, long-term solutions

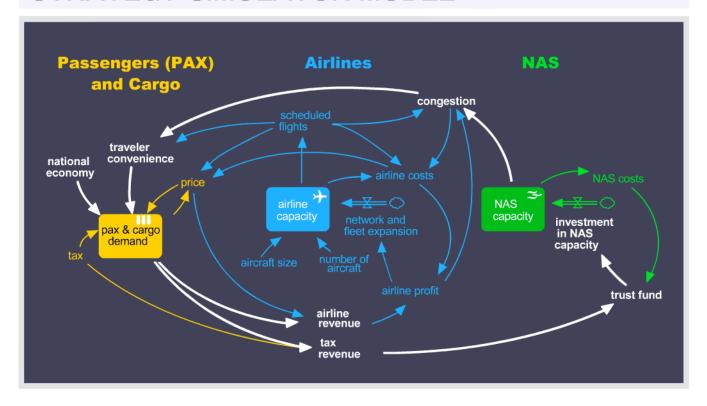
- 4. Focus our limited resources in the right way, at the right place, at the right time
- **Measure our success by the results we achieve, and...**

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#### THE FUTURE

# ... The only certainty is that nothing is certain.

#### STRATEGY SIMULATOR MODEL









More smaller aircraft & yields decline

What If Yield is Also Lower?

Ticket prices decrease driving more passengers and flights

FORE-OIZ



#### **SCENARIO**#3

Capacity falls short of demand

Also, what If Capacity does not support Demand?

Delay and inconvenience will dramatically increase, dampening demand

FORE-OLA





Curb-to-curb transit times faster than pre-9/11, and NAS investment allows greater numbers of flights with no increase in delay.

What if Flying Convenience Improves ?

Demand increases, driving growth in both workload and revenue

FORE-OIG



FORE-017

#### WE MUST BE PROACTIVE

- Forecasted growth cannot occur without underlying ATC capacity
- Growth characteristics significantly impact gap between tax revenue and ATC cost
- We must invest in FLEXIBILITY to efficiently handle changes in traffic including growth greater than forecast

EORE-OIS

#### OPPORTUNITY IS KNOCKING

- We have a once-in-a-lifetime opportunity now
  - We need to replace most of our people soon due to retirements
  - We need to replace aging facilities and infrastructure
- We must change the way we manage air traffic to be more flexible and efficient
- Many futures are possible a positive future requires wise capital investment
- We have a fleeting opportunity to "get it right"
  - Maintaining our global leadership position depends on it

FORE-OIS